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GWU Professor Offers Tax Time Tips for Federal and State Returns

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Office of University Communications

January 23, 2014

By: Dr. Denise Smith, GWU

It's that time of year again: tax time. As W-2s and 1099s begin to arrive in the mail, taxpayers begin gathering receipts for itemizing deductions. Preparing your taxes doesn't have to be drudgery, and can actually be exciting for those anticipating a refund of taxes paid in (or even more). For people with children, the Earned Income Tax Credit (EITC) can be a wintertime windfall of money to pay off debts, invest in much needed items, and save for that inevitable rainy day. Did you know that workers eligible for EITC may receive up to \$6,044 (maximum) by claiming the credit on their 2013 Federal tax returns? To top it off, you don't even have to pay someone to do your taxes for you—can it get any better than that?

First though, what is EITC and who qualifies? Earned Income Tax Credit is for workers who don't earn a high income and who meet certain eligibility requirements. Generally, income and family size determine a taxpayer's eligibility and the EITC amount a taxpayer can receive. If you worked and earned under \$46,227, you may qualify. The basic requirements are:

- Have a valid Social Security Number (if you are filing a joint return, your spouse also must have a valid Social Security Number)
- Have earned income from employment or from self-employment
- Have a filing status other than married filing separately
- Be a U.S. citizen or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return
- Not be a qualifying child of another person (if you are filing a joint return, your spouse also cannot be a qualifying child of another person)
- Not have investment income over a certain amount
- Not file Form 2555 (PDF) or Form 2555-EZ (PDF) (related to foreign earned income), and
- Have a qualifying child who meets four tests (the Age, Relationship, Residency and Joint Return tests) or:

–be age 25 but under 65 at the end of the year

–live in the United States for more than half the year, and

–not qualify as a dependent of another person.

If you qualify, the amount of your EITC will depend on your filing status, whether you have children, the number of children you have, and the amount of your wages and income last year. You can find out more at www.irs.gov/eitc. While the criteria differ based on your income and how many children (or if you don't have children), it is worth checking out.

Now for the second – if you earn less than \$52,000, you can get your income taxes filed free (federal and state). IRS trained volunteers are available in most communities to provide VITA services – Volunteer Income Tax Assistance. To find a location near you simply check with the IRS by calling at 1-800-906-9887 or checking online at <http://irs.treasury.gov/freetaxprep/>. Again this year, Gardner-Webb University will be providing VITA services on Tuesday evenings from 5-8 pm beginning Jan. 21, on their main campus in Boiling Springs, NC. For more information, contact Dr. Smith at 704-406-4382.

When you go to a VITA center for income tax preparation, you will need to take with you a few things that are required: social security cards for everyone on your return (including children), photo ID of taxpayer and spouse, all income information (W-2s, 1099s, business income, etc.), information on deductions for donations, medical expenses, and property taxes (as well as others). Please total these receipts by type (i.e. out-of-pocket medical expense), because the volunteers at these sites usually do not have time to go through your papers. Remember that gambling/lottery proceeds must be included on your tax return as income. Any gambling losses/costs can be deducted if you itemize deductions, up to the amount of winnings. Remember that education costs and school loan interest is also deductible. Be sure to include the costs of looking for a job. If you have questions about whether an expense is deductible, you can check at the IRS website, or call the VITA center.

The biggest change this year is within the North Carolina Income Taxes. The State of North Carolina will not allow a deduction for dependent care expenses for 2013 forward. The NC Earned Income Tax Credit is reduced from 5% to 4.5% for 2013, and will not continue. North Carolina will not give credit for education expenses anymore. North Carolina now has a flat tax rate beginning Jan. 1, 2014, instead of using graduated tax tables. All of these changes are made up for in the new flat tax rate of 5.8 percent of taxable income. (Listen to interview below for more information on the North Carolina State Income Tax changes.)

Finally, the IRS will not begin processing returns until Jan. 31 this year, but many tax preparers will be preparing them before that date. Even if you are not expecting a refund, it helps to have your return completed early so you know the amount of any liability. You would still have until April 15 to pay it without a penalty or interest. For the quickest refund, file early, file electronically, and have your refund direct deposited. As always, if you have questions, talk with your tax preparer.

Dr. Denise Smith is associate professor of business administration and health care management at Gardner-Webb University. She is a Certified Public Accountant with over 25 years of tax preparation experience and currently teaches tax, finance, healthcare

administration, and related courses.